



**SPECTRUM YOUTH AND FAMILY SERVICES, INC.
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

**JMM & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS**

**SPECTRUM YOUTH AND FAMILY SERVICES, INC.
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

SPECTRUM YOUTH AND FAMILY SERVICES, INC.

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

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VT License #92-0000171

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Spectrum Youth and Family Services, Inc.
Burlington, Vermont

We have audited the accompanying consolidated financial statements of Spectrum Youth and Family Services, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of September 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, the consolidated statement of functional expenses for the year ended September 30, 2017, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair representation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Spectrum Youth and Family Services, Inc. as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Jmm & Associates

January 23, 2018

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2017 AND 2016

A S S E T S

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash - unrestricted	\$ 42,797	\$ 39,126
Cash - restricted	413,427	441,923
Grants and contracts receivable	228,558	252,746
Gifts receivable, current portion	110,000	77,500
Bequest receivable	50,000	-
Prepaid expenses	<u>83,534</u>	<u>82,849</u>
 TOTAL CURRENT ASSETS	 <u>928,316</u>	 <u>894,144</u>
 PROPERTY AND EQUIPMENT		
Land	289,065	289,065
Buildings	746,625	746,625
Building improvements	1,061,243	1,050,993
Furniture and equipment	228,992	202,888
Vehicles	<u>46,519</u>	<u>31,905</u>
	2,372,444	2,321,476
Less accumulated depreciation	<u>(1,385,590)</u>	<u>(1,272,759)</u>
 TOTAL PROPERTY AND EQUIPMENT	 <u>986,854</u>	 <u>1,048,717</u>
 OTHER ASSETS		
Long-term investments	4,105,617	3,361,009
Restricted cash - capital reserve	25,338	29,724
Beneficial interest held by others	41,791	36,744
Gifts receivable, net of current portion	80,000	150,000
Security deposits	<u>1,825</u>	<u>1,825</u>
 TOTAL OTHER ASSETS	 <u>4,254,571</u>	 <u>3,579,302</u>
 TOTAL ASSETS	 <u><u>\$ 6,169,741</u></u>	 <u><u>\$ 5,522,163</u></u>

See accompanying notes.

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Accounts payable	\$ 66,510	\$ 18,215
Accrued payroll liabilities	176,750	142,689
Accrued vacation	72,740	73,390
Rent deposits	5,800	9,252
Deferred revenue	79,686	52,335
TOTAL CURRENT LIABILITIES	401,486	295,881
TOTAL LIABILITIES	401,486	295,881
NET ASSETS		
Unrestricted	4,724,356	4,556,859
Temporarily restricted	653,427	669,423
Permanently restricted	390,472	-
TOTAL NET ASSETS	5,768,255	5,226,282
TOTAL LIABILITIES AND NET ASSETS	\$ 6,169,741	\$ 5,522,163

See accompanying notes.

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Grants and contracts	\$ 653,666	\$ 689,295
Program fees	829,585	921,497
Contributions	1,650,826	1,458,986
Operating investment income	82,000	-
Rental income	56,637	40,159
Miscellaneous income	3,393	2,278
	<u>3,276,107</u>	<u>3,112,215</u>
Net assets released from restrictions	146,996	59,187
	<u>3,423,103</u>	<u>3,171,402</u>
TOTAL SUPPORT AND REVENUE		
EXPENSES		
Program services:		
Residential Programs	854,076	855,297
Outreach/Drop-in	370,339	321,950
Multicultural Youth	140,330	128,767
Counseling	498,048	477,048
Youth Development	335,786	297,253
JOBS & Youth in Transition	188,254	197,015
Mentoring	74,341	61,065
Social Enterprise Initiative	163,301	1,001
Total Program services	<u>2,624,475</u>	<u>2,339,396</u>
Support services:		
General and administrative	469,430	499,700
Fundraising	401,289	356,793
Total Support services	<u>870,719</u>	<u>856,493</u>
TOTAL EXPENSES	<u>3,495,194</u>	<u>3,195,889</u>
OPERATING LOSS	<u>(72,091)</u>	<u>(24,487)</u>
NONOPERATING INCOME		
Investment income	<u>239,588</u>	<u>189,687</u>
TOTAL NONOPERATING INCOME	<u>239,588</u>	<u>189,687</u>
CHANGE IN UNRESTRICTED NET ASSETS	167,497	165,200
BEGINNING UNRESTRICTED NET ASSETS	<u>4,556,859</u>	<u>4,391,659</u>
ENDING UNRESTRICTED NET ASSETS	<u>\$ 4,724,356</u>	<u>\$ 4,556,859</u>

See accompanying notes.

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS SUPPORT AND REVENUE		
Contributions	\$ 131,000	\$ 279,780
Net assets released from restrictions	<u>(146,996)</u>	<u>(59,187)</u>
TOTAL SUPPORT AND REVENUE	<u>(15,996)</u>	<u>220,593</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(15,996)	220,593
BEGINNING TEMPORARILY RESTRICTED NET ASSETS	<u>669,423</u>	<u>448,830</u>
ENDING TEMPORARILY RESTRICTED NET ASSETS	<u><u>\$ 653,427</u></u>	<u><u>\$ 669,423</u></u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS SUPPORT AND REVENUE		
Contributions	<u>\$ 390,472</u>	<u>\$ -</u>
TOTAL SUPPORT AND REVENUE	<u>390,472</u>	<u>-</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	390,472	-
BEGINNING PERMANENTLY RESTRICTED NET ASSETS	<u>-</u>	<u>-</u>
ENDING PERMANENTLY RESTRICTED NET ASSETS	<u><u>\$ 390,472</u></u>	<u><u>\$ -</u></u>
TOTAL CHANGE IN NET ASSETS		
Unrestricted	\$ 167,497	\$ 165,200
Temporarily restricted	(15,996)	220,593
Permanently restricted	<u>390,472</u>	<u>-</u>
	<u><u>\$ 541,973</u></u>	<u><u>\$ 385,793</u></u>

See accompanying notes.

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

**FOR THE YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

	<u>Residential Programs</u>	<u>Outreach/ Drop-In</u>	<u>Multicultural Youth</u>	<u>Counseling</u>	<u>Youth Development</u>	<u>JOBS & Youth in Transition</u>	<u>Mentoring</u>
Salaries and wages	\$ 518,466	\$ 213,573	\$ 71,766	\$ 241,802	\$ 207,792	\$ 119,070	\$ 46,921
Payroll taxes and employee benefits	149,329	53,811	18,654	74,663	56,761	32,952	12,977
Total Personnel	667,795	267,384	90,420	316,465	264,553	152,022	59,898
Occupancy	64,098	19,356	10,069	28,004	21,264	11,471	700
Program and client expense	16,045	20,973	13,418	11,483	3,233	5,438	2,848
Professional services	5,921	5,754	2,023	80,890	1,387	2,069	2,588
Depreciation	53,219	17,946	3,066	12,997	5,229	4,382	1,859
Technology expense	13,715	800	4,234	19,974	14,398	325	1,823
Insurance	17,367	7,473	2,385	7,046	5,667	4,095	1,501
Office expenses	8,243	4,680	3,486	6,467	8,408	4,020	1,061
Travel	2,533	1,649	3,639	8,589	11,362	4,207	1,603
Food	3,602	22,016	388	1,023	154	-	24
Miscellaneous	314	1,036	-	4,076	-	-	-
Conferences and meetings	1,224	1,272	7,202	675	131	225	436
Advertising	-	-	-	359	-	-	-
Total Expenses	<u>\$ 854,076</u>	<u>\$ 370,339</u>	<u>\$ 140,330</u>	<u>\$ 498,048</u>	<u>\$ 335,786</u>	<u>\$ 188,254</u>	<u>\$ 74,341</u>

See accompanying notes.

	Social Enterprise Initiative	Total Program Services	General & Administrative	Fundraising	2017 Total	2016 Total
Salaries and wages	\$ 91,586	\$ 1,510,976	\$ 292,192	\$ 203,613	2,006,781	\$ 1,885,983
Payroll taxes and employee benefits	26,423	425,570	82,743	53,442	561,755	515,685
Total Personnel	118,009	1,936,546	374,935	257,055	2,568,536	2,401,668
Occupancy	16,721	171,683	12,272	9,955	193,910	178,563
Program and client expense	11,274	84,712	2,198	52,773	139,683	92,178
Professional services	2,083	102,715	15,204	21,616	139,535	108,251
Depreciation	1,859	100,557	6,355	5,918	112,830	124,384
Technology expense	2,896	58,165	24,121	16,831	99,117	74,968
Insurance	1,408	46,942	7,851	4,867	59,660	51,948
Office expenses	4,469	40,834	8,137	7,819	56,790	62,504
Travel	239	33,821	1,372	443	35,636	26,087
Food	342	27,549	3,219	1,172	31,940	27,417
Miscellaneous	369	5,795	3,647	19,600	29,042	29,650
Conferences and meetings	220	11,385	10,119	3,240	24,744	18,271
Advertising	3,412	3,771	-	-	3,771	-
Total Expenses	\$ 163,301	\$ 2,624,475	\$ 469,430	\$ 401,289	\$ 3,495,194	\$ 3,195,889

See accompanying notes.

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants and contracts	\$ 836,205	\$ 937,705
Cash received from contributions	1,638,326	1,274,293
Cash received from program fees	829,585	921,497
Other miscellaneous receipts	56,578	46,429
Interest received	68,153	67,880
Cash paid to suppliers for goods and services	(766,218)	(735,423)
Cash paid for personnel	<u>(2,535,125)</u>	<u>(2,399,861)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>127,504</u>	<u>112,520</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of long-term investments	-	4,782,194
Purchases of long-term investments	(496,219)	(5,165,434)
Purchases of fixed assets	<u>(50,968)</u>	<u>(2,567)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(547,187)</u>	<u>(385,807)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Endowment gifts received	390,472	-
(Increase) decrease in restricted cash	<u>32,882</u>	<u>(17,135)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>423,354</u>	<u>(17,135)</u>
INCREASE (DECREASE) IN CASH	3,671	(290,422)
BEGINNING CASH	<u>39,126</u>	<u>329,548</u>
ENDING CASH	<u>\$ 42,797</u>	<u>\$ 39,126</u>

See accompanying notes.

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	<u>\$ 541,973</u>	<u>\$ 385,793</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	112,830	124,384
Endowment gifts	(390,472)	-
Increase in beneficial interest in assets	(5,048)	(780)
Realized (gain) loss on investments	(37,520)	26,812
Unrealized gain on investments	(210,867)	(147,839)
(Increase) decrease in:		
Grants and contracts receivable	24,188	(6,086)
Gifts receivable	37,500	(184,693)
Bequest receivable	(50,000)	-
Prepaid expenses	(685)	(43,453)
Increase (decrease) in:		
Accounts payable	48,295	(22,133)
Accrued payroll liabilities	34,061	(31,868)
Accrued vacation	(650)	33,675
Rent deposits	(3,452)	3,992
Deferred revenue	<u>27,351</u>	<u>(25,284)</u>
Total adjustments	<u>(414,469)</u>	<u>(273,273)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 127,504</u></u>	<u><u>\$ 112,520</u></u>

See accompanying notes.

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Spectrum Youth and Family Services, Inc. ("Spectrum" or the "Organization") is a nonprofit organization dedicated to empowering teenagers, young adults, and their families to make and sustain positive changes through prevention, intervention and life skills services. The Organization serves clients in Chittenden County, Vermont and other areas throughout the State and receives revenues from federal and state grants, program fees and private support.

Principles of consolidation

In 2016 Spectrum created a subsidiary entity, Spectrum Works L3C, for the purpose of vocational training. Spectrum Youth and Family Services, Inc. is the sole member of Spectrum Works, L3C. The accompanying consolidated financial statements include the accounts of Spectrum and Spectrum Works, L3C. All significant intercompany accounts have been eliminated in consolidation.

Programs and activities

The Organization provides a wide range of counseling and social work services. The following programs and supporting services are included in the accompanying financial statements:

Residential programs include three residential facilities and an emergency shelter providing services to help youth transition to independent living. The third residential facility on Pearl Street in Burlington was opened in June 2012 (Note 14).

The *Outreach/Drop-in Center* helps youth with basic needs (such as meals and clothing) and offers job training classes, driver education and other services.

The *Counseling Program* is nationally recognized and specializes in assessment and treatment of mental health and substance abuse concerns for adolescents and young adults.

Detail Works gives youth progressive, on-the-job experience, with an emphasis on attention, communication, and accountability, and gives youth a chance to try out these skills in a safe environment.

Other programs focus on individualized services for youth, offering independent living skills, job training and development and substance abuse education, and identifying additional programs to help youth become contributing members of the community.

General and administrative functions include managing the financial and budgetary responsibilities of the Organization, overseeing program activities for compliance with funding requirements and for conformance with the Organization's mission, and providing a working environment offering employees fair compensation and opportunities for professional growth.

Fundraising provides the structure necessary to encourage and secure private financial support from individuals, foundations and corporations.

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Reclassification

Certain amounts in the financial statements for 2016 have been restated to provide an improved comparison to 2017.

Financial statement presentation

Spectrum Youth and Family Services, Inc. is required to report its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There were no permanently restricted net assets as of September 30, 2016.

Comparative financial information

The financial statements include certain prior-year, summarized comparative information in total, but not by function. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2016, from which the summarized information was derived.

Cash and cash equivalents

For purposes of the Consolidated Statements of Cash Flows, Spectrum Youth and Family Services, Inc. considers all unrestricted, highly-liquid investments with an initial maturity of three months or less to be cash equivalents. Amounts on deposit in excess of the FDIC limit were \$551,670 and \$203,731 as of September 30, 2017 and 2016, respectively.

Investments

Spectrum Youth and Family Services, Inc. is required to report covered investments in the Consolidated Statements of Financial Position at fair market value. Any realized or unrealized gain and loss and interest or dividends are reported as investment income in the Consolidated Statements of Activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. Spectrum's policy is to budget a portion of its investment income to support current year operations.

Property and equipment

Property and equipment are carried at cost when acquired by purchase, and at estimated fair market value when contributed. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The Organization's policy is to capitalize all acquisitions over \$2,000 and having a useful life of more than one year. Depreciation expense was \$112,830 and \$124,384 for the years ended September 2017 and 2016, respectively.

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income taxes

Spectrum Youth and Family Services, Inc. is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code, and is exempt from federal income taxes on income related to its exempt purpose as a public charity pursuant to Section 509(a)(1). In addition, contributions to the Organization qualify for the charitable contribution deduction under Section 170(b)(1)(A)(vi). Spectrum Works, L3C is a disregarded entity for tax purposes.

The Organization does not believe it has any unrelated business income, and believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

Contributions

Spectrum Youth and Family Services, Inc. reports its contributions as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions of noncash assets are recorded at their fair values in the period received. Donated investments are also reported at fair value at the date of receipt, which is then treated as cost.

Donated services

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, a number of volunteers contributed other services that have not been reflected in these financial statements, but are included by the Organization in the measurement of the total effort of its programs. In total, approximately 150 individuals provided donated services to Spectrum for 2017 and 2016.

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising

Advertising costs are charged to expense when incurred. Advertising costs were \$3,771 and \$0 for the years ended September 30, 2017 and 2016, respectively.

Functional allocation of expenses

Expenses are charged directly to program or management in general categories based on specific identification. Indirect expenses have been allocated based on methods determined by management.

Grant and contract support

Spectrum Youth and Family Services, Inc. recognizes grant and contract funds on an exchange basis. As such, revenues are booked as the grant is earned. In accordance with the normal policies of the contracting organizations, Spectrum Youth and Family Services, Inc. may retain unexpended funds for use in future periods provided expenses incurred are in compliance with the specified terms of each grant or contract, as defined. The organizations may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Organization with the terms of the grants or contracts. In addition, if the Organization terminates providing services, all unexpended funds are to be returned to the funding sources.

2) GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable as of September 30, 2017 and 2016 consist of amounts due from various state agencies and other nonprofit organizations.

At September 30, 2017 and 2016, 80% and 88%, respectively, of total grants and contracts receivable were due from State of Vermont agencies.

Due to the current nature of the amounts, no allowance for uncollectible accounts has been recorded. There was no bad debt expense related to grants and contracts receivable at September 30, 2017 or 2016.

3) GIFTS RECEIVABLE

Gifts receivable of \$190,000 and \$227,500 at September 30, 2017 and 2016, respectively, were restricted for future years' programs.

Due to experience with the dependability of the donors, management estimates the gifts receivable to be fully collectible. Therefore, no allowance for uncollectible amounts is deemed necessary. There was no bad debt expense related to grants and contracts receivable at September 30, 2017 or 2016.

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

4) BENEFICIAL INTEREST HELD BY OTHERS

In 2007, Spectrum Youth and Family Services, Inc. deposited \$25,000 with the Vermont Community Foundation to establish The Spectrum Youth and Family Services Fund. The gift has been invested in the Foundation's investment pool. The balances of the fund, including accumulated earnings, were \$41,791 and \$36,744 as of September 30, 2017 and 2016, respectively.

5) LONG-TERM INVESTMENTS

Investments in debt securities and equity securities with readily determinable fair values are carried at fair value as determined by reference to quoted market prices and other relevant information generated by market transactions (Level 1 inputs).

Long-term investments consist of the following at:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
September 30, 2017:			
Cash and money funds	\$ 803,278	\$ 803,278	\$ -
Fixed income securities	881,703	886,492	(4,789)
Equity securities	2,420,636	2,093,960	326,676
	<u>\$ 4,105,617</u>	<u>\$ 3,783,730</u>	<u>\$ 321,887</u>
September 30, 2016:			
Cash and money funds	\$ 590,373	\$ 590,373	\$ -
Fixed income securities	954,323	950,094	4,229
Equity securities	1,816,313	1,709,522	106,791
	<u>\$ 3,361,009</u>	<u>\$ 3,249,989</u>	<u>\$ 111,020</u>

Investment return consists of the following for the years ended September 30:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 68,153	\$ 67,800
Net change in beneficial interest	5,048	780
Realized gain (loss)	37,520	(26,812)
Unrealized gain	210,867	147,839
	<u>\$ 321,588</u>	<u>\$ 189,607</u>

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

6) RESTRICTED CASH

Current restricted cash consists of unspent temporarily restricted donations. Current restricted cash was \$413,427 and \$441,923 at September 30, 2017 and 2016, respectively.

The Vermont Housing and Conservation Board (VHCB), which provided funding for the Pearl Street Residence, requires that a reserve account be maintained for the use of capital needs at the Pearl Street building. The capital reserve balances were \$25,338 and \$29,724 at September 30, 2017 and 2016, respectively.

7) LINE OF CREDIT

In March 2016, the Organization entered into a line of credit agreement with Morgan Stanley Private Bank National Association which is collateralized by securities held in its Morgan Stanley investment account. The interest rate under this agreement (4.238% and 3.531% at September 30, 2017 and 2016, respectively) is the one-month LIBOR rate plus a spread of 3%. The available credit on the line was \$2,675,834 and \$2,446,100 at September 30, 2017 and 2016, respectively. No amounts have been borrowed under the agreement as of the date of the auditor's report.

8) RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of September 30:

	<u>2017</u>	<u>2016</u>
Pearl Street residence - capital and programs	\$ 368,650	\$ 378,650
Youth development	130,000	227,500
Other programs and future periods	<u>154,777</u>	<u>13,627</u>
	<u>\$ 653,427</u>	<u>\$ 619,777</u>

Permanently restricted net assets consists of donor-restricted gifts to be maintained in perpetuity. The income on the funds are not restricted.

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

9) ENDOWMENT FUNDS

Spectrum Youth and Family Services, Inc.'s endowment funds consist of funds established by donors to provide annual funding for specific activities and general operations. As the gifts were received late in fiscal year 2017, Spectrum's Board of Directors had not yet formally adopted policies governing these endowment funds.

FASB Staff Position

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position "Endowments of Not-for-Profit Organizations Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds." The Staff Position provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The Staff Position also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires the organization to retain as permanently restricted. There were no such deficiencies at September 30, 2017 or 2016.

The fair values of Spectrum's endowment net assets were as follows at:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
September 30, 2017:				
Donor-restricted endowment funds	\$ -	\$ -	\$ 390,472	\$ 390,472
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 390,472</u>	<u>\$ 390,472</u>
September 30, 2016:				
Donor-restricted endowment funds	\$ -	\$ -	\$ -	\$ -
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

9) ENDOWMENT FUNDS (continued)

A summary of the changes in Spectrum's endowment funds is as follows for the years ended September 30, 2017 and 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance - October 1, 2015	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	-	-
Investment return	-	-	-	-
Appropriated for expenditure	-	-	-	-
Balance - September 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Balance - October 1, 2016	\$ -	\$ -	\$ -	\$ -
Additional contributions	-	-	390,472	390,472
Investment return	-	-	-	-
Appropriated for expenditure	-	-	-	-
Balance - September 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 390,472</u>	<u>\$ 390,472</u>

10) RETIREMENT PLAN

Spectrum Youth and Family Services, Inc. offers its employees a 403(b) plan. The plan allows all employees to make salary reduction contributions to the plan up to the amount allowed by law. The Organization offers an employer matching contribution to all employees 18 years or older who have completed at least one year of service. The Organization makes a matching contribution equal to the lesser of 50% of an employee's salary reduction amount or 3% of an employee's annual compensation. Total contributions to the plan for the years ended September 30, 2017 and 2016 were \$27,196 and \$26,297, respectively.

11) SPECTRUM WORKS, L3C

In fiscal year 2017, Spectrum Youth and Family Services, Inc. created a subsidiary entity, Spectrum Works, L3C, for the purpose of vocational training as an auto detailing social enterprise. Spectrum's Board of Directors approved funding Spectrum Works, L3C up to \$360,000 in its first three years of operations. As of September 30, 2017, Spectrum Youth and Family Services, Inc. had advanced \$153,283 to Spectrum Works, L3C.

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

12) LEASES

The Organization has several noncancelable operating leases, primarily for office space and equipment, that expire at various dates through February 28, 2021. Lease payments were \$34,983 and \$24,199, respectively, for the years ended September 30, 2017 and 2016.

Future minimum lease commitments under operating leases that have remaining terms in excess of one year as of September 30, 2017 are as follows for the years ending September 30:

2018	\$	11,400
2019		7,800
2020		4,200
2021		<u>1,900</u>
	\$	<u>25,300</u>

The Organization leases a portion of its property on Pearl Street in Burlington to another not-for-profit organization under a three-year lease which will expire in June 2020. In June 2012, the Organization opened the Pearl Street Residence, which has eight units available to lease to qualified youth. The monthly rent per unit is \$590, and rent is subsidized by the Burlington Housing Association for youth unable to pay the full monthly amount.

Total rental income was \$56,637 and \$40,159 for the years ended September 30, 2017 and 2016, respectively. Future minimum lease income is \$14,900, \$15,200 and \$11,500 for the years ending September 30, 2018, 2019 and 2020, respectively.

13) CONTINGENCIES

Financial awards from federal, state and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

14) HOUSING COVENANTS AND MORTGAGE DEED

The Organization is subject to a housing subsidy covenant and a mortgage deed as conditions of funding provided to it by the Vermont Housing and Conservation Board (VHCB). VHCB funding consisted of (1) \$150,000 provided in 1994 for repayment of indebtedness to purchase the property at Pearl Street which houses the Emergency Shelter, (2) funding of a \$10,000 feasibility grant received in 2011 for pre-development expenses related to construction of a third residential facility, and (3) \$144,000 received in 2012 for rehabilitation of a portion of the Pearl Street building as a residential facility, known as the Pearl Street Residence, which was opened to residents in June 2012. The housing covenants for the Emergency Shelter and Pearl Street Residence restrict the number of units, and establish rent restrictions and affordability requirements.

SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2017 AND 2016

14) HOUSING COVENANTS AND MORTGAGE DEED (continued)

The mortgage deed restricts use of a portion of the Pearl Street property as an emergency shelter, and establishes penalties for noncompliance including repayment of the principal amount granted for purchase of the building plus 25% of any appreciation of the property from the date of mortgage and date of noncompliance. The \$144,000 VHCB grant requires the funding of a reserve account to be used for future capital needs at the Pearl Street building (Note 6).

15) SUBSEQUENT EVENTS

Spectrum Youth and Family Services, Inc. has evaluated events and transactions for potential recognition or disclosure through January 23, 2018, the date the financial statements were available to be issued.